

**The Enterprise IT Capability Study provides clear evidence that IT matters. Better IT makes a quantifiable, positive difference in business performance.**

The findings of a new, multi-country research study from Keystone Strategy, Inc., sponsored by Microsoft, and conducted under the direction of Professor Marco Iansiti of the Harvard Business School, found that:

- Firms with superior information technology grow faster than their peers. Managers in enterprises with better IT enjoy more insight into their business and workers are more productive.
- Measuring IT as it supports executives, managers, employees, and key business processes (rather than measuring IT investment or other proxies for the impact of IT) results in an unprecedented window into IT's positive impact.
- Stable and robust IT infrastructure with well-implemented systems to support operations and excellent IT management practices are important in achieving these superior results.

**Business Leaders use IT to face challenges.**

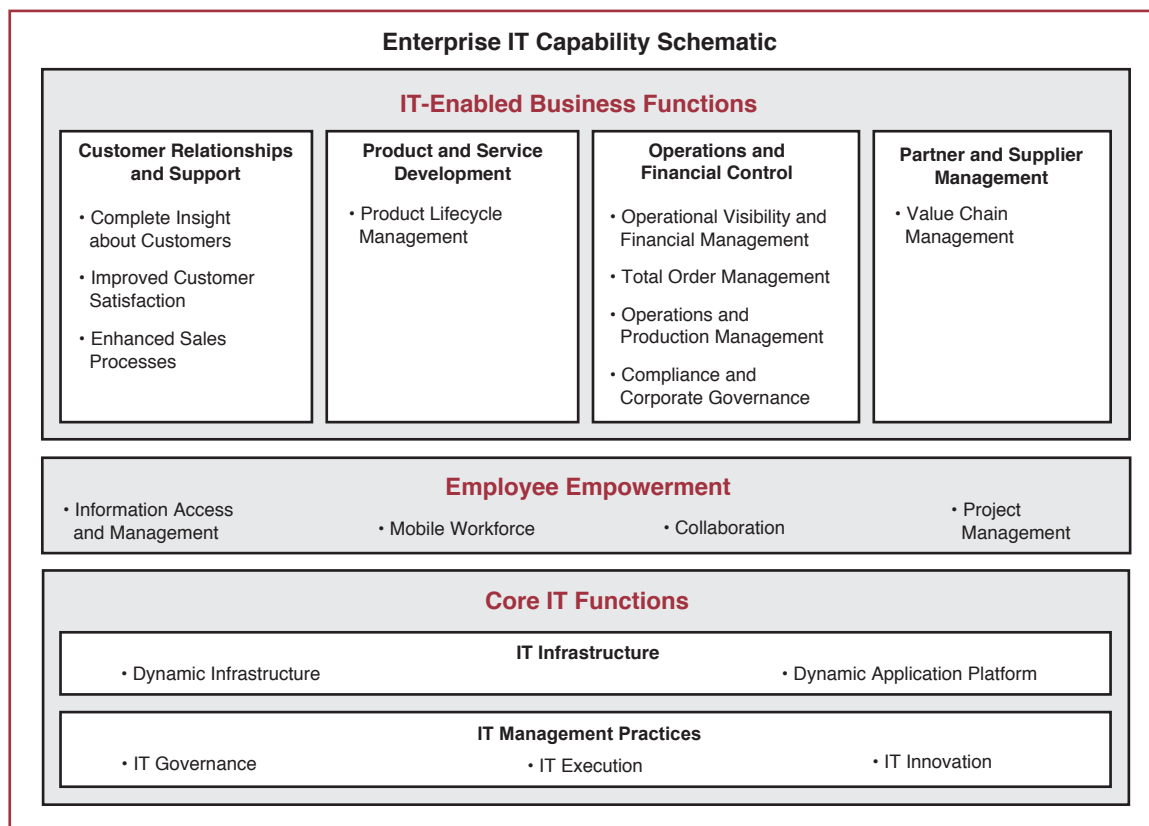
Keystone's research reinforces many widely-discussed IT best practices:

- Chief information officers (CIOs) have to be able to envision business possibilities and initiate them with supporting technology, as confirmed in interviews with IT leaders from 161 large manufacturing companies in the United States, Japan, and Western Europe.
- CIOs have to balance their vision for how to transform the business with core IT challenges of consolidation, integration, service levels, and other fundamental operational needs.
- The success of the CIO depends on the steady support of the rest of the management team through the process of putting in place a stable and robust infrastructure that becomes a platform for higher-level applications that can transform the business.

**The study goes beyond best practices to measure reach and quality of IT.**

Keystone took an innovative approach to measuring IT capability within a company and to quantitatively demonstrate the impact of IT on business performance.

**Figure 1. Enterprise IT Capability.**



Previous studies used indicators such as IT spending or PCs per employee and other measures of IT investment as a proxy for the impact of IT and consequently failed to find a positive relationship between business performance and IT. This led to broad pronouncements on the dubious value of IT, most prominently Nicholas Carr's 2003 article titled *IT Doesn't Matter*. In a departure from these previous studies, Keystone examined the reach and quality of each company's IT-enabled business processes by analyzing IT systems in several key areas: sales and marketing, product and service development, operations and finance, and partner and supplier management. In addition, each company's IT infrastructure and IT management practices were also systematically analyzed to determine which IT components and management practices had the greatest impact on business performance.

**Study findings: Companies with better IT capability grew 6.8 percent faster than their peers with weaker IT capability.**

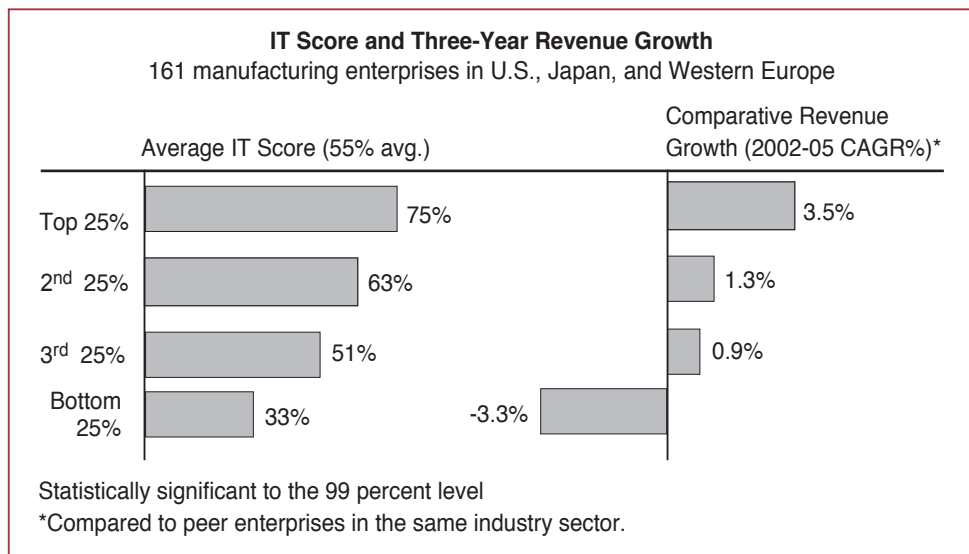
The most prominent finding is that higher IT capability directly correlates with superior revenue growth. The top performing companies grew on average 3.5 percent (compounded annually for 2002-2005) faster than the average for all peers in their industry. The companies in the bottom quartile on average grew 3.3 percent slower than their peers. The results were statistically significant with a very high degree of confidence (see Figure 2).

**Keystone's research reinforces the critical need to build your IT on top of a robust infrastructure.**

Firms in the top quartile of IT capability enjoy a 23 percent advantage in revenue per employee when compared to firms in the bottom quartile of IT capability. The analysis shows that the primary driver of this difference is superior IT infrastructure in the form of an optimized combination of access, security, maintenance, backup/recovery, and messaging systems.

This research also confirmed that better IT provides managers with the tools they need to have better insight into, and control over, key dimensions of their business. For example, firms with better financial and operations systems, such as systems that support order management, asset and inventory control,

**Figure 2. Correlation between IT capabilities and business performance.**



forecasting and reporting, reported significantly better insight into customer and product profitability, as well as having better control over product pricing and more influence over their business partners. Additionally, the firms with better insight and control grew faster than their peers.

**Significance beyond manufacturing industry.**

Firm performance was measured relative to peer group companies from within the same industry sector. While this research was conducted with manufacturing firms, previous Keystone research with mid-sized companies in service industries showed a similar positive impact of IT on revenue growth. IT capability scoring was based on a business activity-driven measure of IT capability. In all cases, the study looked at actual in-use IT. The study excluded IT capabilities that were present but not used in the normal course of business.

**Conclusion: Better IT makes a quantifiable, positive difference on business performance.**

The Enterprise IT Capability Study provides new insights into the impact IT has on business. The study shows that enterprises with better IT capabilities achieve higher productivity and have greater insights into and control over their businesses, resulting in substantially higher revenue growth. This study provides clear evidence that IT matters and that better IT makes a quantifiable, positive difference on business performance.

To view the full study report and its findings, please visit [www.microsoft.com/enterprise](http://www.microsoft.com/enterprise).